



# South Tyneside Council

## Cabinet

Date: 17<sup>th</sup> December 2003

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## Auditor's Report on the 2002/03 Statement of Accounts

Report of the Executive Director of Resources

Cabinet Portfolio/Lead Member: Resources

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### Purpose of Report

1. To consider any issues identified by the Council's external auditors in their review of the 2002/03 statement of accounts and to recommend that Council approve the publication of the audited accounts at its meeting on 18<sup>th</sup> December 2003.

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Performing Together Reference:

Contact Officer:

Paul Sheffield: Finance Policy Officer

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## **Introduction**

2. Under the 2003 Accounts and Audit Regulations the audited Statement of Accounts must be reported by 31<sup>st</sup> December 2003.
3. In accordance with the Statement of Auditing Standards (SAS610) the auditors must, for the first time, report direct to Members on any modifications to the Auditors report, unadjusted misstatements or material weaknesses in the accounting or internal controls adopted by the Council.

## **Auditor Findings**

4. The Auditors report is attached for consideration together with an audited copy of the 2002/03 Statement of Accounts that now require further approval.
5. The main thrust of the report is to give an unqualified opinion on the accounts and to declare that there were no significant misstatements or material weaknesses in the systems and procedures on which the accounts were based.
6. During the course of the audit a small number of adjustments have been made to the unaudited accounts that were agreed by Council on 25<sup>th</sup> September 2003. Most of these are minor changes to the way in which the figures are presented and do not effect bottom line totals. The most noticeable adjustment however is the inclusion of a note providing an update on the position of pension fund liabilities.

## **Financial Implications**

7. There are no financial implications.

## **Legal Implications**

8. The Council is under a statutory duty to publish its audited Statement of Accounts by 31st December 2003 pursuant to the 2003 Accounts and Audit Regulations. It must also make copies of the audited accounts available for purchase by the public. It is a criminal offence to fail to comply with these requirements.

## **Options to be considered**

9. No options have been identified.

## **Recommendations**

10. That the Auditors report is noted and that Council be asked to approve and authorise publication of the audited version of the Statement of Accounts for the year ended 31<sup>st</sup> March 2003.

## **Reasons for Recommendations**

11. Pursuant to the 2003 Accounts and Audit Regulations (Regulation 11) the Council is required to publish its audited 2002/03 Statement of Accounts by 31st December 2003. In order for this timetable to be met Cabinet must approve the audited Statement of Accounts at this meeting.

Communication Concerning  
Financial Statements to  
Those Charged with  
Governance

**South Tyneside  
Council**

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**Summary Report**

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**Appendix 1**

- Draft Auditor's report

<b>Reference:</b>	17.12.03 - Auditors Report on Statement of Accts-Appendix
<b>Date:</b>	December 2003

## Introduction

1. South Tyneside Council (the Council) is responsible for the preparation of financial statements that present fairly its financial position as at 31 March 2003 and its income and expenditure in the year then ended. The Council is also responsible for the preparation of financial statements that present fairly the financial transactions of the Tyne and Wear pension scheme for the year ended 31 March 2003 and the disposition of its assets and liabilities at that date, other than liabilities to pay pensions and benefits after the end of the scheme year.
2. We are responsible for undertaking an audit and reporting whether in our opinion the Council's financial statements do present fairly:
  - its financial position and income and expenditure, and
  - the financial transactions of the Tyne and Wear pension scheme for the year ended 31 March 2003 and the disposition of its assets and liabilities at that date, other than liabilities to pay pensions and benefits after the end of the scheme year.
3. The Council is responsible for the preparation of a Statement of Internal Control in accordance with the provisions of the Code of Practice on Local Authority Accounting in the United Kingdom: a Statement of Recommended Practice. We are required to report where we become aware in the course of our audit of inconsistencies with the disclosures made by the Council.
4. The Council submitted draft financial statements to us on 22 August and we have now completed our audit of those statements. This report details key matters arising from our audit that we must communicate to those charged with governance prior to giving an opinion on those financial statements.
5. It should be noted that our audit does not seek either to obtain absolute assurance that the financial statements present fairly your financial position or assurance that they are accurate in every regard.
6. In this context, we adopt a concept of materiality. We seek, in planning and conducting our audit of the accounts, to identify material errors in your financial statements. Material errors are those which might be misleading to a reader of the financial statements.
7. Our calculation of overall materiality is £2m for the Council's financial statements and for those of the Tyne and Wear Pension Fund. However, we may determine that certain items of account may be subject to a lower materiality level due to their political or numerical sensitivity.

## Background

8. A revised Statement of Auditing Standards (SAS), 'SAS 610 Reporting to those charged with governance', is applicable for the first time to the audit of the Council's accounts. It requires auditors to report to those charged with governance (as distinct from management) certain matters before they give an opinion on the financial statements:

*Auditors should communicate to those charged with governance:*

- a expected modifications to the auditors' report*
  - b unadjusted misstatements*
  - c material weaknesses in the accounting and internal control systems identified during the audit*
  - d their views about the qualitative aspects of the entity's accounting practices and financial reporting*
  - e matters specifically required by other Auditing Standards to be communicated to those charged with governance, and*
  - f any other relevant matters relating to the audit.*
9. We agreed with the Council that the communications required by SAS 610 in advance of issuing our report on the annual financial statements of the Council would be with the Council.
10. We have considered each of the areas listed above and our views are set out below together in this first year with explanations of the issues that we are responding to.

## Auditor's report

11. The standard requires that we report to those charged with governance any proposed modifications to our report on the financial statements. The standard explains the reasons for this requirement:

*Auditors discuss expected modifications to the auditors' report on the financial statements with those charged with governance to ensure that:*

- those charged with governance are aware of the proposed modification and the reasons for it before the report is finalised*
- there are no disputed facts in respect of the matter(s) giving rise to the proposed modification (or that matters of disagreement are confirmed as such), and*
- those charged with governance have an opportunity, where appropriate, to provide the auditors with further information and explanations in respect of the matter(s) giving rise to the proposed modification.*

**On the basis of our audit work we do not currently intend to issue a non-standard report on the Council's financial statements. A draft report is attached at Appendix 1.**

## Unadjusted misstatements

12. We are required to report to you all misstatements other than those of a clearly trifling nature. A trifling error is an entirely inconsequential error, whether taken individually or in aggregate and whether judged by any quantitative and/or qualitative criteria.

**All non-trifling errors identified in the course of our audit have been amended by management. A memorandum has been issued to officers that sets out the key issues identified during the audit and the amendments that have been made as a result. It also sets out a small number of recommendations for improvement. This report is available on request from the Head of Finance should Members wish to see the detail.**

## Material weaknesses in accounting and internal control systems

13. We have limited responsibilities to report to you weaknesses in accounting systems and systems of internal control identified in the course of our audit. SAS 610 provides:

*A material weakness in the accounting and internal control systems is a deficiency in design or operation which could adversely affect the entity's ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements. Auditors normally do not need to communicate information concerning a material weakness of which those charged with governance are aware and in respect of which, in the view of the auditors, appropriate corrective action has been taken, unless the weakness is symptomatic of broader weaknesses in the overall control environment and there is a risk that other material weaknesses may occur. Material weaknesses of which the auditors are aware are communicated where they have been corrected by management without the knowledge of those charged with governance.*

14. We have a duty to report adjusted errors in financial statements where they are relevant to your wider governance responsibilities.

**Our audit of the Council did not identify any weaknesses in accounting and internal control systems.**

**You should be aware that we do not provide a comprehensive statement of all weaknesses that may exist in the accounting and internal control systems or of all improvements that may be made, but have addressed only those matters that have come to our attention as a result of the audit procedures performed.**

## Qualitative aspects of accounting practices and financial reporting

15. SAS 610 places specific duties on auditors to report their assessment of qualitative aspects of accounting practices and financial reporting to those charged with governance:

*In the course of their audit of the financial statements, auditors consider the qualitative aspects of the financial reporting process, including items that have a significant impact on the relevance, reliability, comparability, understandability and materiality of the information provided by the financial statements. Auditors discuss in an open and frank manner with those charged with governance the auditors' views on the quality and acceptability of the entity's accounting practices and financial reporting. Such discussions may include:*

- the appropriateness of the accounting policies to the particular circumstances of the entity, judged against the objectives of relevance, reliability, comparability and understandability but having regard also to the need to balance the different objectives and the need to balance the cost of providing information with the likely benefit to users of the entity's financial statements*
- auditors explain to those charged with governance why they consider any accounting policy not to be the most appropriate, and request those charged with governance to make appropriate changes. If those charged with governance decline to make the changes on the grounds that the effect is not material, the auditors inform them that they will consider qualifying the auditors' report as soon as the effect of not using the most appropriate policy can reasonably be expected to influence the economic decisions of users of the financial statements*
- the timing of transactions and the period in which they are recorded*
- the appropriateness of accounting estimates and judgments, for example in relation to provisions, including the consistency of assumptions and degree of prudence reflected in the recorded amounts*
- the potential effect on the financial statements of any uncertainties including significant risks and exposures, such as pending litigation, that are required to be disclosed in the financial statements*
- material uncertainties related to events and conditions that may cast significant doubt on the entity's ability to continue as a going concern*
- the extent to which the financial statements are affected by any unusual transactions including non-recurring profits and losses recognised during the period and the extent to which such transactions are separately disclosed in the financial statements*
- apparent misstatements in the other information in the document containing the audited financial statements or material inconsistencies between it and the audited financial statements*
- the overall balance and clarity of the information contained in the annual report*
- disagreements about matters that, individually or in aggregate, could be significant to the entity's financial statements or the auditors' report. These communications include consideration of whether the matters have, or have not, been resolved and the significance of the matters.*

**We have carefully considered the qualitative aspects of the Council's accounting practices and financial reporting. No matters have come to our attention that we would wish to draw to the attention of those charged with governance.**

## Matters required by other auditing standards to be reported to those charged with governance

16. Other auditing standards require us to communicate with you in other specific circumstances including:
- where we suspect or detect fraud, even if the potential effect is not material to our audit of the financial statements
  - in respect of the conclusion that the Council is a going concern
  - where there is an inconsistency between the Council's financial statements and other information in documents containing the financial statements.

**We have identified no such matters in the course of our audit.**

## Other matters

**There are no other matters that we wish to draw to your attention.**

## The final accounts audit

17. The Council's draft statements were submitted to us for audit on 22 August 2003 in accordance with the agreed timetable. The statements of accounts were produced promptly this year, despite significant staff changes. Our final accounts audit took place between September and November 2003.
18. Prior to the final accounts audit we agreed the core working papers required to support the financial statements with the accountancy staff. We found that the files were well referenced and there was evidence supporting most of the areas in the Statement of Accounts. All queries were answered efficiently and courteously. We would like to express our appreciation of the assistance provided by finance staff during the course of the review.
19. This year's audit has progressed smoothly and has been achieved through the co-operation and early planning on both sides. We intend to work with the Council over the next year to build on these good relationships and ensure that this is replicated next year.

## Next steps

**Members are asked to note the matters raised in this report.**

## Status of our reports to the Council

*Our reports are prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission. Reports are prepared by appointed auditors and addressed to Members or officers. They are prepared for the sole use of the audited body, and no responsibility is taken by auditors to any Member or officer in their individual capacity, or to any third party.*

## Draft Auditor's report

### Independent auditor's report to South Tyneside Council and Tyne and Wear Pension Fund

I have audited the financial statements on pages 19 to 59 which have been prepared in accordance with the accounting policies applicable to local authorities as set out on pages 14 to 18. I have also audited the Pension Fund accounts, on pages 60 to 74, which have been prepared in accordance with the accounting policies applicable to pension funds set out on pages 65 to 66.

This report is made solely to South Tyneside Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 54 of the Statement of Responsibilities of Auditors and of Audited Bodies, prepared by the Audit Commission.

#### Respective responsibilities of the Chief Financial Officer and auditor

As described on page 10 the Chief Financial Officer is responsible for the preparation of the financial statements in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2002: A Statement of Recommended Practice. My responsibilities, as independent auditor, are established by statute, the Code of Audit Practice issued by the Audit Commission and my profession's ethical guidance.

I report to you my opinion as to whether the financial statements present fairly:

- the financial position of the Council and its income and expenditure for the year
- the financial transactions of its Pension Fund during the year and the amount and disposition of the Fund's assets and liabilities, other than liabilities to pay pensions and benefits after the end of the scheme year.

I review whether the statement on page 11 reflects compliance with the requirements of the Code of Practice on Local Authority Accounting in the United Kingdom 2002: A Statement of Recommended Practice. I report if it does not meet the requirements specified by CIPFA/LASAAC or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider whether the statement on internal financial control covers all risks and controls, or to form an opinion on the effectiveness of the authority's system of internal financial control. My review is not performed for any purpose connected with any specific transaction and should not be relied upon for any such purpose.

I read the other information published with the statement of accounts and consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the statement of accounts.

#### Basis of audit opinion

I conducted my audit in accordance with the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission, which requires compliance with relevant auditing standards issued by the Auditing Practices Board.

An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Council in the preparation of the financial

statements, and of whether the accounting policies are appropriate to the Council's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion, I evaluated the overall adequacy of the presentation of the information in the financial statements.

**Opinion**

In my opinion the financial statements present fairly the financial position of South Tyneside Council as at 31 March 2003 and its income and expenditure for the year then ended.

**Opinion on the Pension Fund accounts**

In my opinion the financial statements present fairly the financial transactions of Tyne and Wear Pension Fund during the year ended 31 March 2003, and the amount and disposition at that date of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the scheme year.

**Certificate**

I certify that I have completed the audit of the accounts in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

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## Auditor's Report on the 2002/03 Statement of Accounts

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**The following is a list of the background papers (excluding exempt papers) relied upon in the preparation of the above report:**

<b>Background Paper</b>	<b>File Ref:</b>	<b>File Location</b>
Working Papers	Files 1 to 4	Financial Planning
Audit Papers		Audit Commission